

# Assessing Accounts Receivables Management as a Determinant of Profitability on Agro-Firms in Eldoret Business Centre

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**Abstract**—Most agro-firms in Eldoret business Centre have been operating without accounts receivables management as a component of working capital meaning it has been difficult to manage their working capital. The main objective of the study was to determine the effect of management of accounts receivables on firm's profitability of agro-firms in Eldoret Business Centre. The study had target population of 510 respondents. Purposive sampling technique was used to sample 51 managers, while simple random was used to sample 214 other employees. Data was collected using a 5 point Likert scale structural questionnaire. To determine the validity of research instrument the researcher used experts opinion, the items in the questionnaires' content, structure and sequence were appropriately amended to remove any ambiguities and pilot study was carried out. Reliability of proposed constructs was tested using Cronbach Alpha. The findings indicated that Management of accounts receivables had a coefficient of 0.716, and profitability had a Cronbach's alpha coefficient of 0.781. The data was analysed using descriptive statistics that include frequency distribution tables, percentages and other measures of central tendency. From the study it was concluded that the postulated hypothesis was not supported. Indicating that management of accounts receivables  $p=0.001$ , is a predictor variable for profitability of agro firms. This study recommends that there is need for managers to create value for their shareholders by ensuring effective and efficient management of debtors. Owing to the limitations of the study it is suggested that same study be done but in other sectors to allow generalizations of the study findings.

**Keywords**—Agro-firms, Accounts Receivables, Eldoret business Centre and Profitability.

## I. INTRODUCTION

### 1.1 Background to the study

Accounts receivables is referred as the spark of life and nerve centre of any business Deloof, (2003). Within the existing industrial world, Accounts receivables refers to a components of short term funds essential for supporting the entire duration of the operating cycle of a business known as Accounting period. Therefore, it's a transaction capital that is not maintained in the business in an exceedingly explicit type for over a year (Gill *et al.*, 2010).

The maintenance of accounts receivables as component of working Capital is said to be inadequate once the working Capital is adequate as it'll result in business protection from adverse effects of shrinkage in the value of current assets (Kaur 2010). Additionally, adequate capital permits carrying of inventories at a level that will allow a business to serve reasonably to customer requirement, enables a company to offer favourable credit terms, to operate its business more efficiently (Pandey, 2006).

Profitability of the firm is additionally affected by excessive capital referred to as a scenario of idle funds that earn no profits for the firm. The evils of excessive capital are and it should be tempted to over trade and loose heavily, needless accumulation of materials, imbalance between liquidity and profit, high liquidity can involve a corporation to undertake larger production that will have an identical demand. It'll realize itself in an exceedingly embarrassing position; its marketing policies aren't properly adjusted to enhance the marketplace for its product (Bhattacharya 2009). Most studies with reference to asset management support the actual fact that aggressive working capital policies enhance a firm's profitability. Previous studies worldwide like Jose *et al.* (1996), Shin and Soenen (1998), Wang (2002) and Deloof (2003) supported the fact that reducing the net credit amount might enhance firm's profitability, permitting

managers to make value for the shareholders by reducing the investment in current assets.

According to Padachi (2006), management of Accounts receivables is vital for the monetary health of all businesses, no matter kind and size. It's necessary that inefficient working capital Management might not solely scale up profit. Sound Accounts receivables management ensures that organizations have the power to fulfil their short-run liabilities adequately and on time. Where-ever companies have accumulated idle resources which cannot generate any financial gain or as indicated forestall inaccessibility of enough monetary resources required for meeting short-run monetary obligations. Thus, this explains why it's usually argued that efficient accounts receivables management is incredibly vital in achieving the main objective of the organization, which may be a firm's profitability.

### 1.2 Statement of the problem

The most significant issue in Accounts receivables management is maintaining of liquidity within the daily operations of a firm, since it helps in preventing creditors and suppliers whose claims are due within the short term from exerting unwarranted pressure on management and thus ensure smooth running of the firm. This means that, the objective of Accounts receivables management is to ensure maintenance of satisfactory level of working capital to prevent excessive or inadequate availability of assets (Filbeck and Krueger, 2005).

Working capital management efficiency is essential particularly for agro firms; wherein the main part of assets is composed of current asset (Horne & Wachowitz, 2000). It directly impacts the profitability and liquidity of organizations (Raheman & Nasr, 2007). The profitability liquidity exchange off is essential due to the fact if operating capital management isn't given attention then the corporations are in likelihood to fail and face financial crisis. Accounts receivables as a component of Working capital is the most important factor for keeping liquidity and profitability of commercial firms (Mukhopadhyay, 2004).

The statement by Filbeck and Krueger is supported by Bhattacharya (2009) who stated that inadequate working capital ends up in the subsequent dangers; the firm might not be able to profit from discount facilities, credit worthiness of the company will be jeopardized due to lack of liquidity, may not take advantage of business opportunities that are profitable, they won't be able to pay dividends because of non-availability of funds, they might borrow funds at unconscionable low liquidity and interest rates can result in low gain, loses its reputation on account of not conformity to its short term obligations.'

In Eldoret Business Centre, businesses register for operation, majority of the businesses operate for a year or two then closes, several scholars would really like to understand the explanations behind the unexpected closures. From numerous feedbacks, it's noted that stock wasn't properly managed; debtors weren't paying their debts, and this suggests that firms aren't generating profits. However, the question that is still unanswered, based on Bhattacharya's findings is how effective is the management of working capital on profitability, hence the study on working capital management as a determinant on profitability of agro-firms in Eldoret Business Centre

### 1.3 Specific Objective

The specific objectives of the study were:

- i. To determine the assessment of payment period on agro-firm's profitability in Eldoret Business Centre
- ii. To determine the assessment of debtors on agro-firm's profitability in Eldoret Business Centre.

### 1.4 Research hypotheses

The study was guided by the following research hypothesis:

H<sub>01</sub>: There is no significant relationship between management of accounts receivables and agro-firm's profitability in Eldoret Business Centre.

## II. LITERATURE REVIEW

### 2.1 Management of Accounts receivables and profitability

Accounts receivables are customers who have not made payment for goods which the company has supplied. The purpose of management of debtor is to reduce the time between sales and receipt of payment. These receivables are a vital factor of current assets. As a result, changes in the extent can determine the capability of finance of the firm.

Trade credit decision relies on many elements such as: competition, goods offered or services. However, as pointed by Grzergorz, (2008), the decision of giving trade credit is a settlement between limiting the risk resulting from untrustworthy customers and getting new customers. Therefore, it is imperious for the firm to consider the capabilities of customers in decisions regarding credit. Receivables are directly affected by the credit collection policy of the firm and the frequency of changing the receivables into cash in management of working capital. By granting the customers more liberal credit terms, profitability will be high but at the same time liquidity will be sacrificed.

Loans granted to clients by the firms and the assets of the firm are called accounts receivables. When there is a build-up of receivables, resources are scarce, that will in other

words be put into more efficient use within the company and earn a return.

When it comes to the credit time the company has given to their customers' one has to realize that the longer authorized time the more risks firms encounter. To minimize this risk companies should always try to shorten these credit times and when that is not done adjustments of prices of the goods or services should be made to compensate for the added risk (Karlsson 1996). It is usually common for companies to shorten the credit arrow in order to hasten debt collection due to the creditworthiness of customers is dynamic over time hence evaluation is needed. If companies do not work with reducing the credit arrow it would mean that it would take longer for them to get payment and that will lower flow of cash and might even result in liquidity problems. However, even though this is a good strategy to have in place, the question remains as to how beneficial this practice is for companies and if it might even be profitable. Concealed credit time can be hard to identify and the easiest way to do that is to follow deals from offer to sales and to payment. Usually the concealed credit time can be shortened by achieving better contact between the different departments within the firm and especially between sales and the factoring department and thereby establishing more effective routines. One important factor concerning when credit falls due is the relationship and contact with the client. Many times the problems occurring from when credit falls due can be caused by the company itself by unclear instructions among other reasons. Also the contact with the customers when credit falls due is critical in shortening the collection process. Therefore, debt collection procedures become crucial together with the understanding of all involved parties in the collection process and can also help the reputation of the company. (Karlsson 1996)

The ratio of accounts receivables considers the time taken for an organization's customers to pay for goods thus being negative for the company (Maness & Zietlow, 2005). For firms having cash flow problems shortening of the credit arrow will provide profits in this area. This is the type of actions one might expect a company will target economic conditions that may change. Therefore, a measure to the extent of these actions will be done with research questionnaire. Since a large part of a firm's working capital can be tied up in accounts receivables the strategy of speeding up this process should help the companies' cash flows and increase the efficiency of their assets. This can be particularly beneficial in times of financial turbulence as it ensures at least partial payments.

According to the theory, by being active the collection process of accounts receivables should be among other things that help shorten down cash flow timeline minimizing the risk for liquidity problems. The interest for this study is whether this type of practices is profitable in a time of financial instability.

### III. RESEARCH METHODOLOGY

#### 3.1 Research design

This study adopted a descriptive survey design. Descriptive survey involves an investigation of variables that constitute what is happening or what has happened and of which the researcher has no control over (Greener, 2008). Kothari, (2012) Descriptive research includes surveys and fact finding enquiries of different kinds. It describes the data in order to draw conclusions about the population characteristics or phenomenon being studied. The research design according to Kerlinger (2000) allows you to employ both quantitative and qualitative approaches.

#### 3.2 Study area

The study was done on Agro-firms in Uasin Gishu County Eldoret Business Centre which is located in Rift valley, Kenya. The study covered small scale Agro-firms that are registered by County government of Uasin Gishu in the year 2015/2016.

#### 3.3 Target Population

Target population refers to the entire group of people, events, or things of interests that the researcher wishes to investigate (Mugenda and Mugenda, (2003), the population is an aggregate of items, the complete group of items about which information were sought; the universe may be finite or infinite. A finite population is one which has a definite number of items. When the number of items is infinite the population is said to be infinite universe or infinite population (Mbwesa 2006).

The study targeted fifty-one (51) agro-firms in Eldoret Business Centre with a 510 employees as shown in Appendix v. These employees were categorized as follows; managers, Veterinary officers, accountants, sales assistants. Table 1 shows a target population.

Table 1: Target Population

Employees Categories	Population
Managers	51
Veterinary officers	80
Supervisors	51
Accountants	51
Sales Assistants	277

Totals 510

Source: County Government of Uasin Gishu (2016)

### 3.4 Sample Size and Sampling technique

#### 3.4.1 Sample Size

Kothari (2012) defines sample as a sub-group of a population or universe; while sampling is the process used in selection. (Baker, Gandhi, 2007) argues out that a sample should be picked in such a way that it represents the entire population to be investigated. Kothari (2012) explains that the size sample should neither be excessively large or small. An optimal sample is one which fulfils the requirements of efficiency, representatives, reliability and flexibility.

Table 2: Sample Size

Employees category	Population	Sample size
Managers	51	51
Veterinary Officers	80	37
Supervisors	51	24
Accountants	51	24
Sales Assistants	277	129
Totals	510	214

Source (Author, 2016).

### 3.5 Sampling technique

Trochim, (2005) sampling is the process of selecting a representative sample of elements from the population. To get a representative sample, the researcher used purposive sampling method to sample top managers of Agro- firms, the selection of a study is sample based on experience or knowledge of the group to be sampled. For the case of selecting other employees the researcher used simple random sampling technique as shown by the formula in the next paragraph

In order to determine the sample of other employees the researcher used Yamane 's (1967) formulae which are as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Where;

n is the sample size,

N is the population size, (459)

e is the level of precision (0.05).

Therefore: n=

$$n = \frac{459}{1 + 459 (0.05)^2}$$

n= 214

Therefore, 51 managers were sampled using purposive method. 214 respondents were sampled using simple random sampling that includes: veterinary officers, supervisors, accountants and sales assistants making a total of 265 respondents.

### 3.6 Data collection Instrument

The data collection instruments to be used in this study were developed by the researcher. The study used questionnaire; this is a collection of items to which a respondent is expected to react in a written form. The designed questions or items in word format are distributed to the respondents. This method collects a lot of information over a short period of time. This allowed the respondents to give their own views. The questionnaire was in two parts, general information of the respondents and questions on specific objectives. The 5 point Likert scale structural questionnaire was useful in analysing data in questions that directly involves the attitudes of the respondents.

### 3.7 Validity and Reliability of research instruments

Validity refers to the degree to which research instrument measures what it purports to measure Mugenda and Mugenda, (2003) According to Orodho, (2004) validity in the sense raised is the degree to which the empirical measure of the concepts, accurately measure the concept. The research is purposed to ensure validity of instruments by using simple language free from jargon which made it easily understood by the respondents. Creswell, (2011) supports that validity is the extent to which research instruments measure what they are intended to measure. To validate the questionnaire, apart from seeking opinion from experts, the researcher carried out a pilot study to the selected separate respondents, but a similar sample to the one in the study. The results of the questionnaires piloted enabled the researcher to determine the consistency of responses which were made by respondents and adjusts the items accordingly by revising the document.

According to Mugenda&Mugenda, (2003) reliability is a measure of the degree to which a research instrument produces reliable results or data after several repeated trials. In the study reliability follows the following steps: the developed questionnaires were given to a few identical respondents' subjects not included in the main study, the answered questionnaire was manually answered. After two weeks the same questionnaire was administered to the same group of subjects, meaning that the instrument used in test-retest method. The constructs testing for reliability was achieved by calculating the Cronbach's alpha. The results are in table that follows;

Table 3: Reliability Test of Constructs

Variables	Reliability Cronbach's alpha	Comment
Management of accounts receivables	.716	Reliable
Profitability	.781	Reliable

Cronbach Alpha was used to test the reliability of the proposed constructs. The findings indicated that Management of accounts receivables had a coefficient of 0.716, and profitability had a coefficient of 0.781. This indicated that the study variables indicated that the values of Cronbach's Alpha are above the suggested value of 0.7 thus the study was reliable (Nunnally & Bernstein, 1994). Sekaran and Bougie, (2010) states that the closer the cronbach's alpha is to 1, the higher the internal consistency of reliability. The measure ranges from 0 to 1, where a value of 1 indicates perfect reliability.

### 3.8 Data Analysis Method

The data for the study was entered and coded for completeness and accuracy of information with the help of SPSS, data was analysed by tabulating the data using frequency tables. The data was analysed using both inferential and descriptive statistics. Descriptive statistics that included frequencies, percentages, tables and charts, while for inferential statistics. Multiple regression was used to establish the relationship between variables.

Multiple regression has the following assumptions, Normality assumption where multiple regression assumed that all the variables have normal distribution (Kothari, 2012). The errors in the prediction of value Y (the dependent variable) are distributed in a way that approaches the normal curve. Skewness and kurtosis was used to test normality of assumption. Linearity assumption; in this study it was assumed that the relationship between the independent and dependent variables is linear. Linearity can be tested with scatter plots. Homoscedasticity means that the variance of errors is the same across all levels of the independent variables. When the variances are very unequal, there is said to be heteroscedasticity. It is further assumed that the variance around the regression line is the same for all values of the independent variables. This assumption can be checked by visual examination of a plot of the standardized errors (residuals) by the regression standardized predicted value. Independence is another assumption that assumes that the errors in the prediction of the value of Y are all independent of one another meaning it

is not correlated. (StatSoft, 2011) No perfect multicollinearity; there should be no perfect linear relationship between two or more of the predictors. So, the predictor variables should not correlate too highly. Non-zero variance; the predictors should have some variation in value meaning they do not have variances of zero.

The Regression Model is as follows:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where:

Y = Profitability

X<sub>1</sub> = Management of accounts receivables

β = Constant

ε = Error term. (Random variation due to unmeasured factors)

## IV. RESEARCH FINDINGS AND DISCUSSIONS

### 4.1 Descriptive statistics

#### 4.1.1 Response Rate

Two hundred and fourteen respondents were sampled for the study hence the same number of questionnaires was issued. However, out of this number, 205 questionnaires were received out of which 8 were poorly or inappropriately filled and were therefore not used in the analysis. In all a total number of 197 questionnaires were used for analysis and this represents 92.1% response. Table 4 depicts the distribution of the responses. The response rate of 92.1% was considered adequate for both the analysis and interpretation of the data and hence used in that regard. This was supported by Survey Monkey. (2009) which stated that the widely acceptable minimum response rate for Face-to-face: studies is at 80-85% is rated as good.

Table 4: Response Rate

Questionnaires	Actual Response	Response Percentage
Not returned questionnaires	9	4.2%
Poor filled questionnaires	8	3.7%
fully filled returned questionnaires	197	92.1%
<b>Total</b>	<b>214</b>	<b>100%</b>

Source: Field data

#### 4.1.2 Background Information of the Respondents

Descriptive statistics such as frequencies and percentages relating to the socio-demographic characteristics of respondents are presented in the Table 5;



Table 5: Demographic Characteristics of the Respondents

Variables		Frequency	Percentage
Gender status	Male	120	60.9
	Female	77	39.1
	<b>Total</b>	<b>197</b>	<b>100.0</b>
Age of respondents	20-30 years	95	48.2
	31-40 years	66	33.5
	41-50 years	22	11.2
	Over 50 years	14	7.1
	<b>Total</b>	<b>197</b>	<b>100.0</b>
Level of education	Certificate	26	13.3
	Diploma	109	55.3
	Undergraduate	59	29.9
	Post graduate	3	1.5
	<b>Total</b>	<b>197</b>	<b>100.0</b>

Source: Field data (2016)

#### 4.1.3 Gender of the Respondents

Regarding the gender of respondents, majority of the respondents 120(60.9%) were male, which is not surprising because most of the people working in the agro- firms in Eldoret business centre are male due to the nature of work but the long working hours render the industry problematic for female. The female respondents were 77(39.1%).

#### 4.1.4 Age of respondents

The majority of employees of agro firms 95(48.2%) were in the economically active age group of (20-30 years) this is followed by the ages between 31-40 with 66(33.5%), 22(11.2%) and lastly 14(7.1%) were 50 years of age

#### 4.1.4 Level of education

From the respondents' level of education, it was shown that there were 26(13.3%) respondents with certificate level of education, 109(55.3%) respondents with diploma level of education, 59(29.9%) with undergraduate qualification and 3(1.5%) had post graduate qualifications. It can therefore be inferred that majority of the respondents have the minimum qualifications due to the fact that respondents were officers, and usually, a minimum level of education is required for such positions. It also indicates that the respondents could be knowledgeable on the study.

#### 4.2 Management of Accounts Receivables

This section presents information pertaining to management of accounts receivables, as shown in the Table 6.

Table 6: Management of Accounts Receivables

Management of Accounts Receivables	N	M	SD
Our customers are those who deal with cash and carry	197	3.84	1.398

There is no harm in selling to customers on credit	197	4.04	1.190
Debtors are given less than 30 days to settle their debts	197	4.33	0.962
We have to follow credit policy on the payments of debts	197	4.12	1.062
Debtors are given less than 60 days to settle their debts	197	3.78	1.278

Where N = sample size, M = Mean, and SD = Standard deviation

According to Grzegorz, (2008) accounts receivables are customers who have not made payment for goods which the company has supplied, the receivables are a vital factor of current assets. The purpose of management of debtor is to reduce the time between sales and receipt of payment. Table 4.4 shows that generally, respondents were in agreement to most of the statements regarding the effect of management of accounts receivables on agro-firm's profitability in Eldoret business centre, on whether agro firms' customers are those who deal with cash and carry, the respondents agreed with a Mean of 3.84 at a standard deviation of 1.398. on whether there is no harm in selling to customers on credit the respondents agreed at a mean of 4.04 and standard deviation of 1.190, further the respondents were asked whether debtors are given less than 30 days to settle their debts and the respondents agreed with a mean of 4.33 and standard deviation of 1.190, also the response on the issue that agro firms in Eldoret business centre have to follow credit policy on the payments of debts, the respondents agreed with a mean of 4.12 and standard deviation of 1.062.

Lastly on whether debtors are given less than 60 days to settle their debts the respondents agreed with a mean of 3.78 and a standard deviation of 1.278. These findings were supported by an overall mean of 4.03 indicating that respondents are agreeing with information on the effect of management of accounts receivables on agro-firm's profitability and standard deviation of 1.1708 indicating there was slight variation on the effect of management of accounts receivables on agro-firm's profitability in Eldoret business centre.

This once again is supported by Maness & Zietlow, (2005). Who stated that being active the collection process of accounts receivables should be among other things that help shorten down the cash flow timeline minimizing the risk for liquidity problems. The interest for this study is to assess whether this type of practice is profitable in a time of financial instability. Further Grzergorz, (2008), stated that Receivables are directly affected by the credit collection policy of the firm and the frequency of changing the receivables into cash in management of working capital. By granting the customers more liberal credit terms, profitability will be high but at the same time liquidity will be sacrificed. Karlsson (1996) indicated that loans granted to clients by the firms and the assets of the firm are called accounts receivables. When there is a build-up of receivables, resources are scarce; in other words, the resources will be put into more efficient use within the company and earn a return.

#### 4.3 Management of Profitability

This section presents information pertaining to the management of profitability, as shown in the Table 7;

Table 7: Management of Profitability

Management of Profitability	N	M	SD
We realize profitability when debtors settle their debts	197	3.85	1.171
Management of inventory has helped us improve on our profitability	197	4.22	.975
Management of Cash help the firm to generate and increase its profits	197	4.07	1.033
After paying all our expenses, we don't get any profits	197	3.84	1.242
After paying all our expenses, we still have profits	197	3.74	1.305

Where N = Sample size, M = Mean and SD = Standard deviation

According to Gitman, (1997) organizations management considers profitability as an important input when planning the organizational operations, whereas creditors and shareholders look at profitability to determine the returns on their investment in the business and assess the risks of their investments, which may be affected by the industry structure and the nature of the competitive environment. From the results in table 4.9 it can be revealed that, agro firms in Eldoret business centre realize profitability when debtors settle their debts with a mean of 3.85 and standard deviation of 1.171, Management of inventory has helped improve on profitability was supported by a mean of 4.22 and a standard deviation of 0.975, Management of Cash help the firm to generate and increase its profits with a mean of 4.07 and standard deviation of 1.033, After paying all the expenses, profits are not realised and this statement was supported by a mean of 3.84 at a standard deviation of 1.242 and after paying all our expenses, profits are realized had a mean of 3.74 and standard deviation of 1.255. The overall average mean was 3.966 meaning that most of the respondents agreed on the management of profitability at a standard deviation of 1.118 suggesting that the standard deviation was lower indicating that the data tends to be closer to the mean, hence there was slight variation in the agreement on the management of profitability.

These results are supported by Ehrhardt & Brigham, (2004) who stated that when firms are in financial difficulties their value and profitability fall because the fear of bankruptcy and the costs that go with it move the shareholders to dispose of their shares quickly even at the lowest price possible. This results in the reduction of the firm's value and profitability during the period of financial distress.

Further Butt *et al*, (2010) and Ibenta, (2005) stated that the return on assets influences the efficiency of management to use assets to generate earnings. They further state that the main purpose or objective of any firm is to maximize profit and maintain the liquidity of the firm.

#### 4.4 Inferential Statistics

The study employed regression to examine the change of dependent variable explained by the effect of independent variable. Analysis of Variance (ANOVA) was used to test the statistical significance of the regression model

##### 4.4.1 Tests for Regression Analysis Assumptions

Normality assumption states that all the study variables have normal distributions. Non-normally distributed variables can distort relationships and significance tests. This study will use Kolmogorov-Smirnov tests to test the

normality of data with a prediction value of 0.05 such that the Significant value of the Shapiro-Wilk Test is less than 0.05 and this indicates the normality of data, when it is

greater than 0.05, the data significantly deviate from a normal distribution. This is shown in the table that follows;

Table 8: One-Sample Kolmogorov-Smirnov Test

		Accounts receivables	profitability
N		224	224
Normal Parameters <sup>a,b</sup>	Mean	4.03	4.09
	Std. Deviation	.705	.720
	Absolute	.208	.188
Most Extreme Differences	Positive	.100	.120
	Negative	-.208	-.188
Kolmogorov-Smirnov Z		3.111	2.819
Asymp. Sig. (2-tailed)		.000	.000

a. Test distribution is Normal.

b. Calculated from data.

From the table, the Kolmogorov-Smirnov Test revealed that the data used in this study was normally distributed and hence can be subjected to other statistical tests of significance used to test the relationship between dependent and independent variables of the study.

Before the analysis, a multicollinearity diagnostic test was conducted to ensure that the data was suitable for logistic regression analysis. Multicollinearity assumption explains the state in which the study explanatory variables are linearly related.

From the study the regression model estimates of the coefficients emerge as volatile and the standard errors for

the regression coefficients can get wildly inflated. The tolerance is an indication of the percent of variance in the predictor variables that cannot be accounted for, subsequently very small values suggest that a predictor is redundant, and values which might be less than 0.10 may merit further investigation. The VIF, which stands for variance inflation factor, is  $(1 / \text{tolerance})$  and on the whole of thumb a variable whose VIF values is greater than 10 may merit further investigation. From the table, it can be revealed that the VIF values were equal to or less than 10 rendering the variables suitable for the regression analysis.

Table 9: Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Accounts Receivables	0.326	3.067

Homoscedasticity assumes that the dependent variable shows an equivalent level of variance across the range of predictor variable. Homoscedasticity is one of the assumptions required for multivariate analysis, to test the assumption of homoscedasticity. If there is no autocorrelation, the Durbin-Watson statistic should be between 1.5 and 2.5. Some statistical tests, for example the

analysis of variance, assume that variances are equal across groups or samples. Durbin-Watson statistic was employed to assess the equality of the variances for the four variables calculated, that is management of accounts receivables, management of accounts payable, management of inventory and management of cash. From the table that follows, the resulting the Durbin-Watson statistic is 1.962 which is



between 1.5 and 2.5 and therefore there is an equivalent level of variance across the range of predictor variable.

Table 10: Homoscedasticity Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.930 <sup>a</sup>	.864	.862	.268	1.962

a. Predictors: (Constant), accounts receivables

b. Dependent Variable: profitability

#### 4.4.2 Test of Hypothesis

From the study a multiple linear regression model was conducted to test the effect among the study variables; management of accounts receivables, and profitability in agro firms in Eldoret business centre.

#### Linear regression model of accounts receivables and profitability

The linear regression analysis was used to test for the relationship between the dependent variable which is profitability and independent variable which is accounts receivables. The coefficient of determination ( $R^2$ ) and

correlation coefficient (R) shows the degree of association between profitability and accounts receivables of agro firms in Eldoret business centre. From table 4.12 the regression analysis indicates that  $R^2 = 0.641$  and  $R = 0.800$ . R value gives an indication that there is a stronger association between profitability and accounts receivables. The  $R^2$  indicates that explanatory power of the independent variables is 0.641. This means that about 64.1% of the variation in profitability is explained by the unit change in accounts receivables

Table 11: Model Summary of accounts receivables and profitability

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.800 <sup>a</sup>	.641	.639	.434

a. Predictors: (Constant), accountants' receivables

The table that follows shows the results of ANOVA test which reveal that accounts receivables has significant effect on profitability of agro firms in Eldoret business centre. Since the P value is 0.000 which is less than 5% level of significance. It implies that the model was significant. The study therefore rejected the first null hypothesis;

Table 12: ANOVA of accounts receivables and profitability

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	65.483	1	65.483	347.817	.000 <sup>b</sup>
	Residual	36.712	195	.188		
	Total	102.195	196			

a. Dependent Variable: profitability

b. Predictors: (Constant), accountants' receivables

Table 13 indicates there was significant relationship between management of accounts receivables and agro-firm's profitability in Eldoret Business Centre, this was supported by p-values of 0.000, and this indicated that a unit increase in management of accounts receivables leads to increased profitability. This is supported by Grzergorz,

(2008) whose contributions are that receivables are directly affected by the credit collection policy of the firm and the frequency of changing the receivables into cash in management of working capital. By granting the customers more liberal credit terms, profitability will be high but at the same time liquidity will be sacrificed.

Table 13: Coefficients of accounts receivables and profitability

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.792	.179		4.416	.000
	accounts receivables	.819	.044	.800	18.650	.000

a. Dependent Variable: profitability

## V. SUMMARY, CONCLUSION AND RECOMMENDATIONS OF THE STUDY

The following are the major findings of the study as per the objective:

### 5.1 Management of Accounts Receivables

The findings on the effect of management of accounts receivables, the study indicated that, there is a strong association between management of accounts receivables and agro-firm's profitability in Eldoret Business Centre. According to Grzegorz, (2008) accounts receivables are customers who have not made payment for goods which the company has supplied, the receivables are a vital factor of current assets.

This concurs with the findings by Maness & Zietlow, (2005). Who stated that being active the collection process of accounts receivables should be among other things that help shorten down cash flow timeline minimizing the risk for liquidity problems. The interest for this study is whether this type of practices is profitable in a time of financial instability. Further Grzegorz, (2008), stated that Receivables are directly affected by the credit collection policy of the firm and the frequency of changing the receivables into cash in management of working capital. By granting the customers more liberal credit terms, profitability will be high but at the same time liquidity will be sacrificed. Karlsson (1996) indicated that loans granted to clients by the firms and the assets of the firm are called accounts receivables. When there is a build-up of receivables, resources are scarce that will in other words be put into more efficient use within the company and earn a return.

### 5.2 Management of Profitability

Regarding management of profitability, it was revealed that, agro firms in Eldoret business centre realize profitability when debtors settle their debts, Management of inventory has helped the firms improve on our profitability was supported, also management of Cash help the firm to generate and increase its profits.

According to Gitman, (1997) organizations management considers profitability as an important input when planning the operations of the enterprise, whereas creditors and shareholders observe profitability to decide the returns on their investment in the business and examine the risks in their investments which may be affected by the industry structure and the nature of the competitive environment.

These results concur with Ehrhardt & Brigham, (2004) who stated that when firms are in financial difficulties their value and profitability fall because the fear of bankruptcy and the costs that go with it move the shareholders to dispose of

their shares quickly even at the lowest price possible. This results in the reduction of the firm's value and profitability during the period of financial distress.

Further Butt *et al*, (2010) and Ibenta, (2005) stated that the return on assets influences the efficiency of management to use assets to generate earnings. They further state that the main purpose of any firm is to maximize profit and maintains the liquidity of the firm also is an important objective.

## CONCLUSIONS

From the study on effect of management of accounts receivables on agro-firm's profitability, it was concluded that agro firms there is no harm in selling to customers on credit, debtors are given less than 30 days to settle their debts, also agro firms in Eldoret business centre have to follow credit policy on the payments of debts. Lastly it was concluded that debtors are also given less than 60 days to settle their debts.

## RECOMMENDATION

### Recommendation with Policy and Practice

This study recommends that managers of agro firms in Eldoret town should create value for their shareholders by ensuring effective and efficient management of debtors, this ensures reduction of time between sales and receipt of payment and this will determine the capability of finance of the firm.

Owing to the limitations of the study it is suggested that same study be done but in other sectors to allow generalizations of the study findings. Also working capital is not only a factor that ensures profitability of agro firms, there is need for a study on the determinants of profitability in agro firms.

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